DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT MANAGEMENT COMMAND
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

IN REPLY
REFER TO AQOD

MAY 13 1997

MEMORANDUM FOR COMMANDERS, DEFENSE CONTRACT MANAGEMENT DISTRICTS

SUBJECT: DCMC Memorandum No. 97-003, Management Councils' Role in Parametric Pricing (INFORMATION)

This is an INFORMATION memorandum. It expires when the contents are included in DLAD 5000.4, Contract Management (One Book), not to exceed one year. Target Audience: All DCMC Employees.

Management Councils were set up in late 1995 to manage the Reinvention Laboratory, "Enhance the Use of Parametric Cost Estimating Techniques." The Councils have been a catalyst in expanding the initiative through teaming and improving communications between organizations. Thirteen contractor pilot sites are currently testing this initiative. The Councils have been a catalyst in expanding the use of parametrics through teaming and improving communications between organizations; continuing communication is key to a successful test. An example of how a Management Council operates in promoting parametric cost estimating techniques follows:

McDonnell Douglas Helicopter Systems (MDHS), Mesa, AZ became a reinvention lab test site in October 1995.

o The Management Council includes multi-functional representatives from MDHS, DCMC, DCAA, and the contractor's primary customer, the Army Aviation and Troop Command. The team's overall objective is to develop parametric cost estimating relationships (CERs) that are acceptable to the all parties for negotiating contractual items.

o At the start of the test, the team held a brainstorming session and identified several areas of cost that were potential candidates for the application of parametric cost estimating techniques.

o The team's initial task was to develop an estimating process for identifying, developing, validating, and updating CERs to estimate non-recurring in-house tooling raw material costs. Although MDHS had been using over 200 CERs to estimate program specific costs for many years, the Government was reluctant to use these CERs because no standard process for developing, implementing, or evaluating the techniques existed.

The team's dedicated efforts resulted in the development of an acceptable estimating process for identifying, developing, validating, and updating CERs. The process was developed as follows:

1. *Integrated Product Team:* During the initial stages of the test, the team committed to meeting weekly, discussing relevant issues, and planning action items. The team established roles and responsibilities for the various members:

- MDHS collected the data, performed statistical analysis, made on-going presentations, incorporated team feedback, and established/updated its estimating policies and procedures.

- The Government team members provided real-time review and feedback and performed statistical analysis.

2. *Logical Relationships:* The first thing the team did in developing the tooling material CER was to determine if the cost estimating relationships were logical. Based on a detailed study of relevant information, the team determined that the data relationships were indeed logical.

3. *Currency and Adequacy of Data Bases:* The next process was to determine if the supporting data bases were current and adequate. After finding that the data bases were not current, the team updated the information to reflect the last four years of program history.

4. *Statistical Analysis (Validation):* After the data bases were updated, the team applied statistical tests to determine if significant data relationships existed and whether the cost driver selected would be a good predictor of costs. The results were positive and indicated that the initial cost driver selected for the tooling material CER was a good predictor of costs.

5. *CER Updating and Monitoring:* MDHS established an updating process where it agreed to analyze monthly, new data that has been gathered, perform data analyses, and discuss possibilities of improving the CERs. This process will be applied to the tooling CER, as well as to the 200 CERs previously mentioned. The team also established a Memorandum of Agreement that defines specific criteria on how the CERs will be used, maintained, and documented.

6. *Estimating Policies and Procedures:* MDHS documented the processes it uses in identifying, developing, validating, and monitoring CERs in its estimating system

policies and procedures. The Government team members evaluated these policies and procedures and provided real-time feedback to MDHS.

o The Management Council at MDHS provides a good example of how the Government and industry can work together in successfully deploying parametric cost estimating techniques. Team members are currently developing improved CERs to estimate technical manual costs and also plan to test software estimating models.

The Future of Parametrics:

Assuming the Reinvention Laboratory confirms the purported benefits of parametric cost estimating techniques, Management Councils will undoubtedly play a pivotal role in institutionalizing the process at DCMC contract administration offices world-wide. Anticipated benefits include simplified negotiations and field pricing; streamlined acquisition processes; reduced procurement cycle time; reduced proposal preparation costs; and more consistency in estimating practices.

Lesson Learned:

The primary lesson learned from the parametric cost estimating test to date is that all parties evaluating a process need to work together from the start in order to establish a common knowledge base. At one of the parametric lab sites, the program office was not part of the Management Council team during the initial stages. As a result, this common knowledge base was not established from the start and the acceptance criteria from the buying activities perspective was not initially accounted for.

If you have any questions regarding this memorandum, please contact Don Reiter, Contractor Capability and Proposal Analysis Team (AQOD). Mr. Reiter can be reached at (703) 767-3407, DSN 427-3407, or via the internet: donald_reiter@hq.dla.mil.

JILL E. PETTIBONE
Executive Director
Contract Management Policy

Attachment